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SIPDIS

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SUBJECT: DENMARK: MARCH ECONOMIC HIGHLIGHTS

REF: COPENHAGEN 105 (TAX REFORM MOVES FORWARD), COPENHAGEN  
51 (BANK BAILOUT PLAN)

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Opposition Says Stimulate, Government Says Wait  
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12. Though many local economists and a growing number of business executives are joining Denmark's left-of-center opposition and labor unions in arguing that the Danish economy urgently needs a major public spending stimulus package to revive the economy, the Danish government appears content to maintain a wait-and-see approach while it gauges the impact of recently-enacted tax reform measures (Ref A). By implementing an across-the-board personal income tax cut that lowers tax for all Danes by 1.5 percent and an additional 6 percent for about half the population, the government projects that the reduction will boost GDP growth by at least 1.5 percent and create 19,000 new jobs.

13. In addition to the personal income tax cut, the government's tax reform package also allows citizens to withdraw contributions made to a special mandatory pension fund that was in effect from 1998 to 2003. Polling indicates that more than half of all eligible Danes intend to make such a withdrawal when the program takes effect on June 1, and will spend the money on consumer items or pay down debt. If so, this step alone could result in an additional 1 percent growth in GDP. While the Danish government's tax reform package has drawn praise from the OECD, critics point out that the tax cuts only start in 2010 and that any stimulating effects of the special pension fund withdrawal plan will not be realized until late 2009.

Fat Tax Sounds Death Knell for Danish Pastry?  
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14. The Danish government announced it will offset the loss of tax revenue caused by the newly-enacted personal income tax cut by imposing a new set of "environmental" taxes and duties on industry. Among these is a new DKK 25 (USD 4.50) per kilo tax on saturated fats and sugar, a move that has elicited howls of outrage from the Danish baked goods industry and pastry gourmards. Industry insiders estimate that the retail price of the delicacy known to most of the world as a "Danish pastry" (curiously, Danes call it "Vienna

Bread") will increase by at least 15 percent. The chief of the Danish Bakery and Confectionery trade association expressed fear that the move will lead to closure of many neighborhood bakeries and may even result in the demise of the Danish pastry in Denmark. FAS reports that the new "environmental" taxes and duties are unlikely to affect American agricultural exports to Denmark.

#### Denmark By Numbers

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15. Denmark's inflation rate was 1.7 percent in February, unchanged from January and the first time in six months that inflation did not decline. Inflation in Denmark is about 0.5 percent higher than in the euro zone. The Danish National Bank projects that the Danish economy will be in a recession throughout 2009 with a GDP contraction of 1.1 percent, but projects a recovery in late 2011. Most financial commentators scoff at what they characterize as overly hopeful projections, and claim that a more realistic forecast is GDP contraction of at least 2.5 percent in 2009. Unemployment continues to creep steadily higher: extrapolating from OECD's most recent January statistics, we estimate the current unemployment rate is just over 5 percent.

#### More Grim News from the Financial Sector

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16. According to a recent survey conducted by a financial sector trade association, 20 percent of all Danish banks are at serious risk of not being able to pay employees and

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creditors in the coming months. The numbers are even worse when looking at the financial sector in general and not just banks, with 2,000 out of 7,400 financial firms in real danger of defaulting on payroll and operating expense payments during the next year. Denmark's four biggest banks are projected to lose DKK 30-48 billion (USD 5.4-8.7 billion) through non-performing loans in 2009 on top of a collective loss of DKK 30 billion in 2008. If so, Danish banks would burn through two-thirds of the government's DKK 75 billion bank bailout fund in less than one year, far faster than the government had anticipated (Ref B). Although government officials took pains to emphasize that the bailout plan was designed to facilitate increased lending, 38 percent of businesses say they are still experiencing difficulty in obtaining bank financing.

#### Bankruptcy Hammer to Fall in September?

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17. As part of the Danish government's recently-enacted tax reform package, Danish companies were granted an immediate six-month grace period in paying VAT and other taxes. According to the Danish Chamber of Commerce, this six-month tax holiday is the only thing that is keeping some companies afloat right now. The Chamber issued a dire warning that the number of bankruptcies may explode in September when the tax holiday ends. 2009 has already been a banner year for bankruptcies and is on pace to far surpass the total number of bankruptcies in 2008, the worst year on record. There were 513 bankruptcies in February, 10 percent up from January, and 120 percent more than February 2008.

#### Vestas Loses Wind Turbine Market Share to GE

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18. Danish alternative energy dynamo Vestas Wind Systems ended 2008 with 19.8 percent of the global market share for wind energy, considerably lower than its stated goal of a 25 percent market share and its 22.8 percent share in 2007. GE Energy is gaining market share fast and is a close second on the global scene with a market share of 18.6 percent, up from 16.6 in 2007. GE Energy is projected to overtake

Vestas as the world's biggest wind turbine producer in the near future if current trends continue.

McCulley